GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3156
ANSWERED ON:10.08.2001
BANKS INVESTMENTS AND ADVANCES IN CAPITAL MARKET
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Will the Minister of FINANCE be pleased to state:

(a) whether in the light of the recommendations made by the RBI-SEBI technical committee in respect of banksinvestments and advances in capital markets, the RBI has announced certain amendments in its guidelines;

(b) if so, the main amendments made in the guidelines;

(c) to what extent these steps will prevent irregularities in investment norms;

(d) whether these guidelines with amendments are strictly been followed by the banks;

(e) if so, whether any monitoring committee by the RBI has been set up to monitor the results; and

(f) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) and (b) : RBI has intimated that based on therecommendations of the RBI-SEBITechnical Committee and comments received from experts, market participants on the Committee`s Report, RBI has issuedRevised Guidelines on Bank Financing of Equitiesand Investment in Shares, vide its circular No. DBOD BP.BC.119/21.04.137/2000-01 dated 11th May, 2001.

The important amendments made in the guidelines relating to bank`s investment in and advances to capital market are as under:

(i) The above circular dated 11th May, 2001 superseded the earlier circular DBODBP.BC.51/21.04.137/2000-01 dated 10th November 2000.

(ii) The ceiling of 5% prescribed for investment in shares/debentures etc. would henceforth apply to total exposure (including fund based and non-fund based) to capital market by banks in all forms.

(iii) Non-fund based facilities and investment by banks in non-convertible debentures and other similar instruments (excluding CPs) would not be included in computing banks` total outstanding advances.

(iv) For computing the ceiling on exposure to capital market, direct investment in shares by banks would be calculated at cost price of the shares.

(v) Banks should not extend finance to corporate for investment in IPOs of other companies and NBFCs should notbe provided finance for further lending to individuals for IPOs.

(vi) In order to avoid any nexus emerging between inter-connected stock broking entities and banks, the board of each bank would fix within the overall ceiling of 5% a sub-ceiling for total advances to stock brokers/makers (both fund based and non-fund based i.e. guarantees) and to single stock broking entity including its associates/inter-connected companies.

(vii) Instead of the existing margin of 25% and 50% on advances against demat and physical shares, respectively, a uniform margin of 40% would be applied on all advances/financing of IPOs/issue of guarantees.A minimum cash margin of 20% (within the margin of 40%) would have to be maintained in respect of guarantees issued by banks.

(viii) Bank should not undertake arbitrage operations themselves or extend credit facility directly/indirectly to stock brokers for arbitrage operations in stock exchanges.

(ix) Banks should not undertake sale transactions in shares without actually holding the shares in their investment account.

(x) There would be clear separation of decision making with regard to banks` investment in shares and advances against shares.

(c) to (f) : RBI has intimated that CMDs/CEOs of all banks have been advised to bestow their personal attention to implementation of the guidelines issued by RBI, particularly to the provisions relating to putting in place the risk management and internal control system in the bank. Further, the surveillance and monitoring of Banks` investment in shares and advance against shares would be done by the Audit Committee of the Board. In each of its meetings, the Board would review the total exposure of the bank of capital market in different forms (fund based and non-fund based). The Board has to ensure that the guidelines issued by RBI are complied with both in letter and spirit. Further, the Audit Committee of the banks should keep the Board informed about the banks` overall exposure to capital market and its compliance with the RBI/Board guidelines, adequacy of risk management and internal control system.